Seventy-Second

ANNUAL REPORT

Year Ended December 31

1966

CENTRAL OF GEORGIA RAILWAY COMPANY

BOARDS
mrb
J 652.0973
C 329R

CENTRAL OF GEORGIA RAILWAY COMPANY

Seventy-Second ANNUAL REPORT

1966

MAY 13 1968 Copy

Officers

CENTRAL OF GEORGIA RAILWAY COMPANY

D. W. BROSNAN	*Chairman of the Board and Chief Executive Officer, Washington, D.C.*
WILLIAM E. DILLARD	*President, Savannah, Ga.*
EARLE F. BIDEZ	*Executive Vice President, Savannah, Ga.*
H. W. WATERS	*Vice President-Operations, Savannah, Ga.*
JOHN B. MILLER	*Vice President-Law, Savannah, Ga.*
WILMER F. LEACH	*Vice President-Sales, Washington, D.C.*
ROBERT S. HAMILTON	*Vice President-Marketing and Research, Washington, D.C.*
ALLEN H. DOUGLAS	*Vice President-Industrial Development, Atlanta, Ga.*
W. R. DIVINE	*Comptroller, Washington, D.C.*
J. J. MAHER	*Secretary, New York, N.Y.*
ROBERT H. SMITH	*Treasurer, Washington, D.C.*

Board of Directors

CENTRAL OF GEORGIA RAILWAY COMPANY

EARLE F. BIDEZ	*Executive Vice President, Central of Georgia Railway Company, Savannah, Ga.*
WINTON M. BLOUNT	*President, Blount Brothers Corp., Montgomery, Ala.*
FRANK E. BONE	*Vice President, Amsted Industries, Inc., Milledgeville, Ga.*
*D. W. BROSNAN	*Chairman of the Board and Chief Executive Officer, Central of Georgia Railway Company; President, Southern Railway Company, Washington, D.C.*
ERLE COCKE, SR.	*Retired Vice President-Staff, Central of Georgia Railway Company, Atlanta, Ga.*
*WILLIAM E. DILLARD	*President, Central of Georgia Railway Company, Savannah, Ga.*
ROBERT W. GROVES	*Chairman of the Board, Strachan Shipping Company, Savannah, Ga.*
CHARLES C. HERTWIG	*Retired Chairman of the Board, Bibb Manufacturing Company, Macon, Ga.*
JULIAN T. HIGHTOWER	*President, Thomaston Mills, Thomaston, Ga.*
THOMAS M. JOHNSON	*President, Johnson, Lane, Space, Smith & Co., Inc., Savannah, Ga.*
*JOHN J. McDONOUGH	*Associate, Finch Alexander Barnes Rothschild & Paschal, Atlanta, Ga.*
JOHN B. MILLER	*Vice President-Law, Central of Georgia Railway Company, Savannah, Ga.*
*W. H. MOORE	*Vice President-Operations, Southern Railway Company, Washington, D.C.*
WALTER C. SCOTT	*Vice President & Secretary, Savannah Sugar Refining Corp., Savannah, Ga.*
HUGH M. TARBUTTON	*Vice President, Treasurer and Traffic Manager, Sandersville Railroad Company, Sandersville, Ga.*
RICHARD TIFT	*Richard Tift Company, Albany, Ga.*
ROBERT TRAIN	*President, Bibb Manufacturing Company, Macon, Ga.*
MARTIN L. TRESSEL	*Retired Vice President, Alcoa International, Inc., Pittsburgh, Pa.*
*D. ABBOTT TURNER	*Chairman of the Board, Columbus Bank & Trust Company, Columbus, Ga.*
S. S. WILBANKS	*Vice President-Assistant to the President, Southern Railway Company, Washington, D.C.*

* Member of Executive Committee

JAMES M. BARRY, who rendered distinguished service as a Director of Central of Georgia for more than 13 years, resigned because of ill health and his resignation was accepted with great regret by the Board on April 28, 1966.

To the Stockholders of
CENTRAL OF GEORGIA RAILWAY COMPANY:

Railway operating revenues of your Company for the year 1966 were $48,946,000, an increase of $1,075,000 over 1965. Net income was $116,000 which compares to a deficit of $416,000 in 1965.

Industrial development continues at a gratifying pace in the territory served by Central of Georgia. Businessmen allocated more than $164,000,000 for new plants and warehouses or expansion of existing facilities in 1966 compared to $102,000,000 in 1965 and $76,000,000 in 1964.

It was reported to you last year that Southern Railway Company was making an exchange offer to Central stockholders involving the exchange of four shares of Southern 5 per cent preferred stock ($20.00 par value) for each share of Central of Georgia preferred and two shares of Southern 5 per cent preferred for each share of Central of Georgia common. This action was authorized by the Interstate Commerce Commission. Pursuant to this authorization, Southern Railway acquired a total of 8,268 additional shares of preferred and 5,449 additional shares of common of Central of Georgia. Southern now owns 167,859 shares of Central preferred and 334,966 shares of Central common, being 98.51 per cent of the outstanding preferred and 99.33 per cent of the outstanding common and 99.05 per cent of the outstanding combined voting stock of the Central of Georgia Railway.

The Interstate Commerce Commission still has before it the question of whether or not it had prescribed Sections 4, 5 and 9 of the Washington Job Protection Agreement as conditions of control of Central by Southern. These conditions would have required notice and negotiation with the labor organizations prior to consolidation of facilities as to employment rights of employees at the consolidated facilities. Further hearings regarding these matters were conducted in Washington, Atlanta, Macon and Savannah during 1966. A rebuttal hearing was held in January, 1967 in Washington. The case has now been briefed and will be argued before the full Commission in April, 1967.

During 1966 the United States Court of Appeals for the District of Columbia directed that the United States District Court for the District of Columbia retain jurisdiction and consider the complaint of two minority stockholders seeking to compel the declaration and payment of dividends on preferred stock of the Central for the years 1960 to date and for future years. This reversed an earlier decision of the District Court declining jurisdiction in this matter. Counsel continues to advise that the suit is without merit because the dividend policy of the Company has been and is consistent with the law and business realities, and that proper priority has been given to necessary expenditures for the upgrading of the physical properties and equipment of the Company. No dividends were paid on Central's preferred stock in 1966.

In addition to the comparative income and balance sheet accounts for Central of Georgia provided as a part of this report, there is enclosed a copy of the Southern Railway Company Annual Report for 1966. This report was prepared on the basis of consolidated revenues and earnings of Southern Railway Company and its controlled subsidiaries including Central of Georgia. It provides the broad perspective of developments important in the operations of your Company which are closely interrelated with all other Southern Railway System lines.

The Directors and management thank the stockholders, customers, and employees for the help given in 1966.

Sincerely,

D. W. Brosnan

Chairman of the Board

CENTRAL OF GEORGIA RAILWAY COMPANY

COMPARATIVE STATEMENT OF INCOME AND RETAINED INCOME

	Year 1966	1965
Railway operating revenues:		
Freight	$45,573,271	$44,462,388
Passenger	1,173,995	1,242,500
Mail	684,126	850,063
Express	212,270	306,415
Other	1,302,747	1,009,670
Total	48,946,409	47,871,036
Railway operating expenses:		
Maintenance of way and structures	9,957,166	12,393,071
Maintenance of equipment	8,315,285	9,612,342
Traffic	1,800,058	1,773,176
Transportation	19,920,569	18,257,495
Other	3,311,149	3,446,066
Total	43,304,227	45,482,150
Federal income taxes—note 1	(1,182,000)	(2,113,500)
Taxes other than federal income	2,811,628	2,950,815
Equipment rent expense	2,108,303	1,484,329
Joint facility rent expense	955,484	319,841
	47,997,642	48,123,635
Net railway operating income (loss)	948,767	(252,599)
Other income		
Dividends from affiliates—note 2	555,000	1,535,150
Interest	337,224	140,141
Miscellaneous	693,508	382,003
	2,534,499	1,804,695
Miscellaneous deductions from income	139,125	31,621
	2,395,374	1,773,074
Interest and other fixed charges	1,723,884	1,629,462
Contingent interest	555,431	559,492
NET INCOME (LOSS) FOR THE YEAR	116,059	(415,880)
Retained income beginning of year	17,740,395	18,824,619
Deduct—Loss on retirement of yard facilities	(287,951)	—
—Adjustment of preceding year's federal income taxes	—	(668,344)
Retained income end of year	$17,568,503	$17,740,395

COMPARATIVE BALANCE SHEET

ASSETS	December 31 1966	1965
Current Assets:		
Cash	$ 49,047	$ 967,564
Marketable securities (at cost)	996,936	1,528
Accounts and other receivables	4,941,356	5,598,158
Materials and supplies (at average cost)	1,438,841	989,915
Other current assets	99,526	125,536
	7,525,706	7,682,701
Capital and other funds—note 3	721,280	5,906,553
Investment in affiliates—note 2	14,325,743	14,516,687
Road, structures and equipment net of accumulated depreciation—note 4	109,155,727	102,650,725
Other assets	1,990,797	995,762
Total assets	$133,719,253	$131,752,428

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$ 6,609,517	$ 4,427,775
Accrued expenses and other liabilities	3,902,438	3,520,625
Current liabilities excluding current portion of long-term debt	10,511,955	7,948,400
Long-term debt—note 8:		
Due within one year	3,831,725	3,456,082
Due after one year	44,330,883	46,377,791
Amounts payable to affiliated companies	5,484,500	4,434,500
Other liabilities	1,219,125	1,022,698
	65,378,188	63,239,471
Shareholders' equity:		
5% preferred stock, $100 par value—230,000 shares authorized 170,394 shares outstanding	17,039,400	17,039,400
Common stock, no par value—500,000 shares authorized 337,240 shares outstanding	33,724,000	33,724,000
Capital surplus	9,162	9,162
Retained income	17,568,503	17,740,395
	68,341,065	68,512,957
Total liabilities and shareholders' equity	$133,719,253	$131,752,428

NOTES TO FINANCIAL STATEMENTS

1. The Company is included in the consolidated federal income tax return of Southern Railway Company, to which it contributed a tax loss for both 1966 and 1965. The income statements reflect the payments from the consolidated group for use of the Company's tax loss in the consolidated return.

   The Company keeps its books in accordance with the rules and regulations of the Interstate Commerce Commission, which do not provide for the recognition of possible deferred income tax resulting from use of accelerated depreciation methods or rates for tax purposes. The excess of tax depreciation over book depreciation has the effect of increasing the credit for use of the Company's tax loss by $408,000 and $767,000 for the years 1966 and 1965, respectively. The cumulative amount of tax benefit to the Company from these practices aggregates $11,751,000 to the end of 1966.

   At December 31, 1966, the Company had available unused net operating loss carryovers of $588,000 which can be used to reduce future taxable earnings of the Company. There was also $1,816,000 of unused investment credit available at the year end, which can be used to reduce future federal income taxes of the Company.

2. At December 31, 1966, the Company's equity in its subsidiary companies exceeded its investment in these companies. Its equity in the earnings of these companies amounted to $1,205,000 and $1,310,000 for 1966 and 1965, respectively.

3. Capital and other funds include approximately $301,000 and $5,551,000 at December 31, 1966 and 1965, respectively, of unexpended proceeds from conditional sales agreements held by agents to be disbursed upon delivery of equipment.

4. Road, structures and equipment shown on the balance sheet comprise the following:

	1966	1965
Road	$ 70,484,616	$ 70,309,573
Equipment	83,113,212	77,748,349
Other property	1,809,682	1,804,801
	155,407,510	149,862,723
Accumulated depreciation	46,251,783	47,211,998
Net properties	$109,155,727	$102,650,725

   Depreciation expense was $3,280,000 and $3,307,000 for 1966 and 1965, respectively.

   Accounting procedures prescribed by the Interstate Commerce Commission do not provide for depreciation on track structures. In lieu of this, current costs of renewals and maintenance are charged to expense. Expense of renewals and maintenance of track structure amounted to $4,778,000 for 1966 and $7,055,000 for 1965.

5. Preferred stock dividends are cumulative for a period of three years. At December 31, 1966, three years have accumulated and such unpaid dividends amount to $2,555,910.

6. The Order of the Interstate Commerce Commission allowing acquisition of controlling interest in the Company by Southern Railway Company provides for protection to employees dismissed or displaced as a direct result of this acquisition, unless through some action or inaction of his own the employee forfeits his right thereto. This protection is in the form of payments equivalent to the affected individual's average wages for a period prior to this transaction. Any amounts earned by the affected employee enter into the computation of amounts payable by the Company. The Company has made final lump-sum settlements with some of the employees covered by the protection provisions of the Order. During 1966, $700,000 was charged to expense as a result of these employee protection provisions compared with $1,075,000 during 1965.

   The Company's interpretation of the employee protection provisions of the ICC Order has been challenged. As a result, during 1964 the ICC was directed by the Supreme Court to clarify these provisions. This matter is now pending before the ICC. Consequently, it is not possible at this time to make a reasonable estimate of the future liability of the Company, if any, for dismissal or displacement payments.

7. The Company was contingently liable, separately or jointly with others, on indebtedness of or assumed by affiliated companies in the approximate amount of $737,000 at the end of 1966 compared with $913,000 at December 31, 1965. The Company, together with other major railroads, has agreed to advance funds to meet principal and interest payments on certain equipment obligations of Trailer Train Company, but only in the unlikely event that charges for the use of this equipment are insufficient to meet these payments. The Company is a participant, together with other railroads, in a service interruption policy requiring payment of limited additional premiums if claims are filed by other participants.

   The Company was served with a summons and complaint in a suit seeking to compel the declaration and payment of dividends on preferred stock for 1960 and subsequent years. In the opinion of counsel for the Company, the suit is without merit.

8. Long-term debt of the Company on December 31, 1966, was as follows:

	Due Within One Year	Due After One Year	Total
Bonds:			
First Mortgage Series A—4%—due January 1, 1995	$ 59,267	$10,446,334	$10,505,601
General Mortgage (Income) Series B—4½%—due January 1, 2020	70,300	12,246,800	12,317,100
	129,567	22,693,134	22,822,701
Equipment obligations—payable serially:			
Equipment trusts maturing to 1972	1,381,937	2,638,280	4,020,217
Conditional sale agreements maturing to 1981	2,195,601	18,536,495	20,732,096
Note payable—maturing in 1971	124,620	462,974	587,594
Total equipment	3,702,158	21,637,749	25,339,907
Grand total	$3,831,725	$44,330,883	$48,162,608

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Stockholders,
Central of Georgia Railway Company:

We have examined the balance sheet of CENTRAL OF GEORGIA RAILWAY COMPANY as of December 31, 1966, and the related statement of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared in accordance therewith. The provisions of the Uniform System of Accounts vary from generally accepted accounting principles in that no accounting recognition is given to the possible effect on income taxes in future years of current benefits, referred to in Note 1 to the financial statements, resulting from the deductions (net) for amortization and depreciation of property for income tax purposes in excess of the deductions recorded in the accounts.

In our opinion, subject to the ultimate liability for dismissal or displacement payments referred to in Note 6 to the financial statements and except for the matter referred to in the preceding paragraph, the accompanying balance sheet and the statement of income and retained income present fairly the financial position of the Company at December 31, 1966, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 17, 1967

LOOK AHEAD-LOOK SOUTH

PRINCIPAL OFFICE.....227 West Broad Street, Savannah, Ga. 31401

WASHINGTON OFFICE..920 Fifteenth Street, N.W., Washington, D. C. 20005

NEW YORK OFFICE.....70 Pine Street, New York, N. Y. 10005

STOCK TRANSFER AGENT.....Bankers Trust Company
16 Wall Street, New York, N. Y. 10015

REGISTRAR OF STOCK....Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N. Y. 10015